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INNOVATION ON MODE OF PAYMENT FOR COMPANY
HOPETONE

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The object of this study is to research and analyze the current situation of payment mode in China and finally come up with a proper and efficient way of that for our case company Hopetone.

The study will be developed based on company Hopetone. In the introduction part, knowledge of mode of payment will be presented to the thesis reader. The whole passage will start with two referenced cases that illustrate the importance of payment mode respectively from two different angles. Moreover, there will be an explicit introduction on Hopetone in the beginning part. Flowingly, mode of payment will be demonstrated specifically in terms of history, utilization, and its involvement. Theories will be applied to this part. Furthermore, in the following two parts focus will be on analyzing and solving the problem.

Mode of payment will be analyzed in terms of commercial credit and bank credit. Merits and pitfalls will be reflected for both classifications. Various types of payment mode will be mentioned to enhance the persuasion of the theory part. Noticeably, a totally new mode of payment, which came up with by research and discussion, will be presented. The thesis will also present a holistic analysis of the reason to adopt this mode.

In the final part, a concretely solid conclusion will be presented, which embraces both the new possibilities of payment and the future development on mode of payment in terms of China's policy.

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1. INTRODUCTION

It had been seven years since 2001, furniture maker, Le Kang, locating in Guang Dong, China, doing business with the furniture wholesaler Aduba, situated at Dubai, UAE. A consistently long-term business partnership had been built between the two parties and a fixed transaction process has built upon their tacit agreement and mutual trust. Basically what they did was that representatives of Aduba went to the factory of Le Kang to choose the product and make the order. After confirming the product number, Le Kang had always chosen to issue the pro forma invoice, rather than sign the contract; then Aduba would apply the letter of credit (a way of payment mode which will be explained later) from bank upon the pro forma invoice given by Le Kang. However, the information on the pro forma invoice issued by Le Kang never matched with that on the letter of credit due to the complexity of the provisions of letter of credit in Middle East. Even though the apparent loopholes existed in the whole process, Aduba had always accepted the unmatched document and paid the bill because of the long-term corporation. (Hou 2010, 12)

However, this tacit agreement had been broken up by the financial crisis in 2008. In October 2008, Le Kang, as usual, delivered the goods worth about 1 million dollars. But Aduba did not accept the unmatched bill as usual with the excuse of financing problem. At the same time, Aduba requested for a few days extended and the permission to pick up the goods. Le Kang did not hesitate too much and approved so. Time flew. By the extending date due, Le Kang still couldn't get any response from Aduba. Finally they are acknowledged that Aduba went bankrupt.

Another story tells that start-up company Da Yu, a medium-sized bedding manufacturer, was normally running and aimed to extending their customer base. In the first year that Da Yu had been doing, they accumulated a few customers and made a decent turnover. However these were just small orders that could only make Da Yu

as a breadwinner.

What they exactly did was that clients made the order after confirmed the product type and Da Yu issued the invoice after that. However, they always liked to use collection and remittance to settle the transactions between their clients and itself. If we take a close look at these methods, we will find that the common point of them is that they offer the buyer very limited credit days or even no credit for payback. As a common sense in business area, business always would like to strive for more credit on payback days. In a way, we could say arbitrarily, the more credit the company got, the better the financial situation would be. However, Da Yu, as a start up just omitted this very prominent factor. Their customer base became more and more narrower. Existing clients turned to other suppliers to find more credit. Da Yu finally went busted soon after the second year. (Chen & Li 2010, 36)

1.1 Importance of payment mode in business trade

Once in a while, some people would buy a cup of coffee by cash; some people buy a limousine by check; some people would transfer money to their sons or daughters for living expenses... Whether it is currency, check, credit card, or even today's electronics, the people used above to accomplish the trades all reflect a crucial phase in our finance world, which is the payment mode. The action of payment can be found every now and then in our daily life here and there. Even if we track back to the primitives, their way of exchanging goods also reveals a process of payment. (Humphrey 1995, 4)

The payment mode I have been illustrating is all about the payment in our daily life. However, it also plays a prominent and vital role in the business world as the two stories above demonstrated. At the end of every single business trade, businessmen can only be disburdened and admit the trade is successful when the money is been sent to their account, otherwise no one could say the trade has been successfully dealt.

(Kevin 2011, 169)

Both of the consequences resulted from the beginning two stories, to a large extent, are businessmen's nightmare. These two cases also demonstrate that payment mode is an indispensable and vital part in the whole process of a business transaction. We can easily find out from the first case that Le Kang stumbled over on the fault about dealing with the transaction documents, whereas the second case reflects that the flop could also occur in the situation that, less or even no, credit offered which may well be a mainstream on payment in future in business trading. Hence companies spend considerably large amount of time deliberately working on it. The case company, my research object, Hopetone is also distressed about the payment mode and has been suffered from the matter over and over.

1.2 Objectives of the study

This research is done to clarify, to describe, and to understand the trend of development of payment mode, so that Hopetone, the case company, would get the most ideal and proper recommendations on the process of payment mode.

One objective of this study is to specify the finance problem existing in company Hopetone and explain and analyze it in terms of mode of payment. In case the only main issue in this thesis is the mode of payment for Hopetone, other aspects of financial problems happened on Hopetone will not be dug into. Secondly I aim at finding an ideal and appropriate way of payment for Hopetone. Based on current mode of payment of Hopetone, I will try to introduce and recommend some of the advanced ones, which Hopetone have never used before. An elaborate demonstration of why these ways better facilitate Hopetone will be reflected in this thesis. Moreover, I will pursue an innovation on the mode of payment for Hopetone. I will specially tailor a creatively plausible mode of payment for Hopetone, which best benefit Hopetone.

Questions will be answered in this thesis:

- What is mode of payment in general?
- What does company Hopetone do?
- What does payment mode mean for Hopetone?
- What's the root of finance problem of Hopetone?
- What's wrong with mode of payment of Hopetone?
- What else mode of payment best suits for Hopetone?

1.3 Background of company Hopetone

Tianjin Hopetone Co., Ltd., founded in 1999, is the largest scaled business of commerce and trade in Tianjin. It is built upon the investment of Tianjin Materials and Equipment Group Corporation, a state-owned corporation whom just edged itself into the top 500-company world ranking, and of the former Tianjin Metal Material Company, which at present merged into a big corporation with some other two companies. (Website of Tianjin Hopetone, 2012)

In the meantime, Hopetone expanding its domestic market, it is also looking forward to get into the foreign potential market to compete in the world platform. Hopetone stands in the second place on the polyethylene importing compared to the companies in the same industry in China. It also has a stable corporation with Japan Marubeni Corporation and with Citic Group Inc. and so forth. (Website of Tianjin Hopetone, 2012)

An integrated structure of embracing both domestic and international trade is fulfilled at present. It mainly consists of five products which is steel, automobile, chemicals, coal and mineral. Hopetone is dedicated in the aspects of product variety, scaling and environmental protection on its product and advantages all the time in each of its

segmented market. Hopetone, insisting its business concept of “Centered by customer, guided by market”, has been fulfilling its customer needs by improving product quality and providing efficient and quality service. Currently Hopetone is holding dominant shares in the following companies: Tianjin Hoperay Mineral Limited Company (Hong Kong joint venture), Tianjin Haoze Business Development Co., Ltd. and Tianjin Hopetone International Logistics Co., Ltd. (Website of Tianjin Hopetone, 2012)

Tianjin Hopetone has built a complete system of procurement, logistics, sales and after-service based on modern logistic concept. As a result, business scale is expanding increasingly. Turnover of Hopetone in 2003 is 2.28 billion Yuan (286 million in euro) with a profit of 15 million Yuan (1.88 million in euro). The turnover soared up to 4 billion Yuan (500 million in euro) with the profit to 40 million (5.01 million in euro) Yuan in 2004. (Website of Tianjin Hopetone Co., Ltd., 2012)

Top 500-company world ranking, 4 billion annual turnovers, and 40 million annual profits... It is undoubtedly that such achievements above justified that Hopetone is a powerful company and continues thriving. Coexisting with such a heap of honors, a crucial problem also had a negatively sound influence on Hopetone. (Website of Fortune China, 2012)

1.4 Overview of the finance problem of Hopetone

As we all, students studying in business program, know, that financing has been always a very prudent concern for trading enterprises because company need to use the money attained from the last sales, or loan from bank, to purchase inventory and do another round of trade. In other words, fund chain plays a vital role in trading enterprise. (Yan & Luo 2001, 28) However, accounts receivables, refers to the money that owed to the to a company by a customer for the service or product provided on credit, account for a materially proportion of the total assets in a

company in the industry of commercial trading. Therefore, to ensure the credit clients pay back the money and do it as soon as possible are vital for a trading enterprise. Hopetone, in this sense, is suffering from the same problem and it seems the situation is even severe. (Yan & Luo 2001, 45)

Table 1. Simplified Balance sheet of Hopetone (Annual financial report of Hopetone)

Simplified Balance Sheet of Hopetone as at 31st Jul 2012

Assets	RMB	Liabilities	RMB
Account receivables	430,791,853		
Total Assets	1,057,376,438	Total Liabilities	1,057,376,438

Table 1 illustrates the balance sheet of Hopetone in the fiscal year 2012. We can easily find out that the account receivables are 430,791,853 Chinese Yuan accounts for nearly 41% of total asset. (Financial report of Hopetone) Such a startling figure implicate that Hopetone should make sure most of them will not become bad debt and get them back in time. In fact, they did not sort this out ideally. In 10 years time, there are several cases of transaction that Hopetone failed to collect the money back or did not finish it smoothly. Some of these flops are due to the mistakes on domestic rules of clients; some were resulted from deliberate fraudulence of clients and so forth. But the most common and tricky problem that caused the flop is the improper payment mode used. Hence updating and advancing current payment mode of Hopetone, the main research topic in this paper, is one of the most pressing issues the company is facing. (Financial report of Hopetone, 2012)

1.5 Conceptual framework

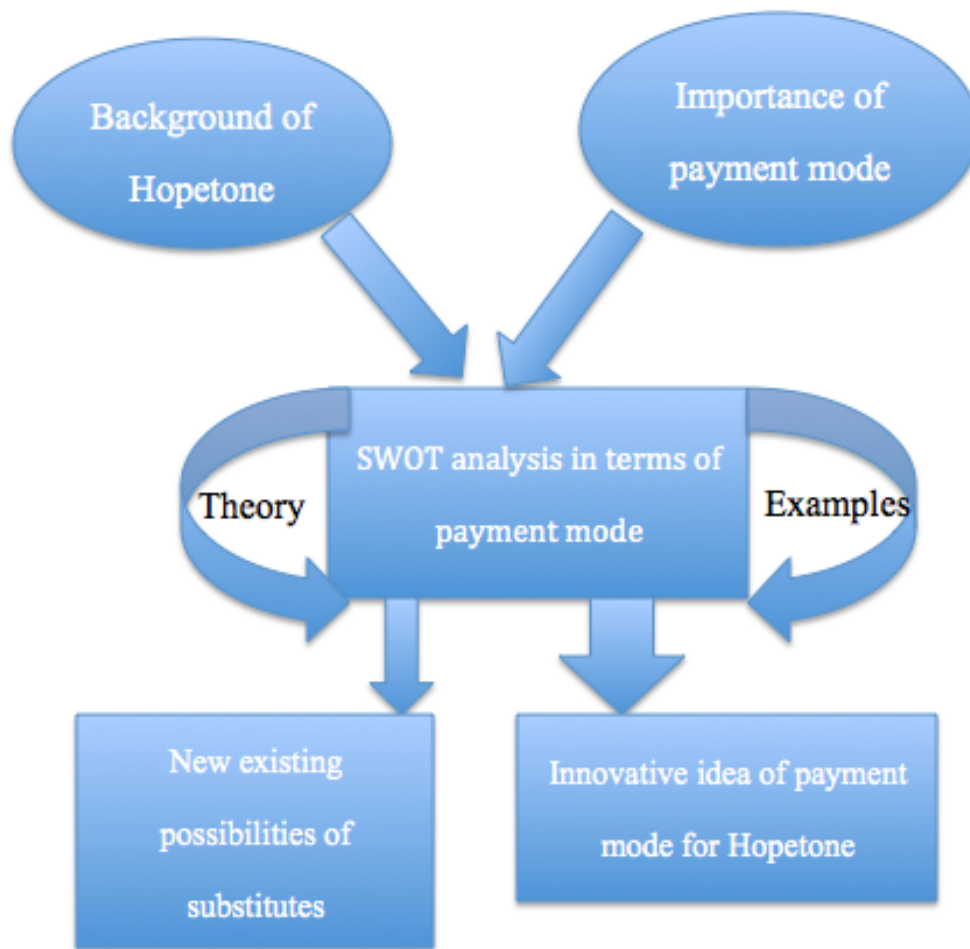


Figure 1. Conceptual framework

The conceptual framework of this thesis mainly consists of 2 parts as figure 1 illustrates. The first phase is to define the problem existing in mode of payment of Hopetone through analyzing the background info of Hopetone, as well as, the most basic rules we should know about the mode of payment. Past experience of failure on payment mode will be added in and analyzed to help us sort out each of the hidden risk factors over the past flops.

Secondly, a SWOT analysis will be presented to show the strength, weakness, opportunities, and threats of Hopetone respectively in terms of payment mode. Based on the consideration of all aspects, two outcomes we could expect to get. One is the

ways that already exist, but have never been adopted by Hopetone. The other one is a totally new way of payment that I came up with through the study and the interview with professionals.

1.6 Research methodology

Generally speaking, an exploratory research method is been adopted during doing this thesis. From gathering the essential information of the company, to define the problem and giving elaborate analysis, to giving out creatively plausible suggestions, the whole process reflects a scene of problem solving which is a distinct feature of exploratory research. (Sachdeva 2009, 14)

Secondary research, one type of exploratory research, is been used on realizing and understanding payment mode. Data is been collected from online and offline books, websites and journals. (Sachdeva 2009, 14)

Then it comes to one of the most important objectives of this thesis, which is to come up with an ideal mode of payment for company Hopetone. Hence, this thesis is a study not just on actual functioning of existing models, but on an innovative solution. Therefore a qualitative research method, another type of exploratory research, is adopted over doing this topic. An in-depth interview was carried out with the head of the cotton department of Hopetone, Ming Liu, in his reception area. (Sachdeva 2009, 14) I asked some basic knowledge of his industry, as well as the current payment mode they have been using. Furthermore, he is also asked to give some market analysis. Most importantly, I got his idea and suggestion to my innovation on mode of payment of their company.

2. HISTORY OF TRADE PAYMENT

Once we mention payment, people can intuitively reflect that to use cash to buy stuff. However, the meaning of the word is way more profound than what most people conceive of. Let alone trade payment, much more complicated terms are introduced in this subject, such as documentary credit, banking network, open account and so forth.

Hence, in this chapter, theoretical explanations as to trade payment will be presented for the readers to have as much as possible background knowledge, so that to better understand the later analysis of my suggestion.

2.1 What is trade payment and the reason of its existence?

As I mentioned already in the introduction, trade payment is a banking service that aims at settling the relationship between debtors and creditors in transactions.

In almost all the business transactions there is an exchange process of money and goods or goods and goods. Either way is a tricky process for both buyers and sellers because they cannot be done simultaneously. If buyer does not fulfill the payment after seller delivered the goods, it is a lost for seller and vice versa (Website of eHow, 2012). Therefore a payment mode that facilitates both the seller and the buyer so that the transaction could be conducted harmoniously is what enterprises always pursue.

2.1.1 Meaning of payment mode for buyers

For buyers, frankly speaking, the longer the credit terms they got the happier they would feel. Of course, some people would say that this inference is too arbitrary due to some other factors. Credit gives commercial buyers the opportunity to sell their goods before paying back their debts. Very often, buyers do not have sufficient working capital to purchase another parcel of goods before selling out this one. Sufficient credit term makes it possible so that the operational efficiency would be

relatively improved. (Hinkelman 2003, 6)

2.1.2 Meaning of payment mode for sellers

On the other hand, for sellers, they have some other priorities as well. Sellers want to get their investments as soon as possible after input huge amount of money on labor cost, raw materials and some other overheads. However, debtors, always, cannot be trust in business transactions. Many things could happen between the times of sale the goods and the actual time of payment. Therefore, as a possible mean of securing the payment of the transaction, payment mode is also a prominent tool for seller in a business transaction as well. (Hinkelman 2003, 8)

2.2 International trade payment

As I mentioned already in the introduction that business of Hopetone is embracing both the international and domestic trade. In this thesis, I will specifically analyze the payment mode for domestic trade of Hopetone.

Before digging into the business of Hopetone. Let us have a brief overview of the history of trade payment development. As we all know, payment mode has a very long history. Back in days, merchandisers use the way of “goods exchange” to conduct trade before the establishment of monetary system. Until the monetary system established, merchandisers started use cash payment in business trade. Of course, this “cash” does not mean note and coin back to 3000 years ago while people still use gold, silver and part copper made coin to conduct business transactions. Cash payment play an important role in early international trade. It stimulates the development of domestic and international trade. It facilitates the further development international labor and resource allocation. (Hou 2010, 14)

However, due to the transportation of “metal currency”, high risk, high fares and slow liquidity became the obstacle on the way of trade development. Therefore as the

expansion of trade scale and volume, cash payment was bound abandoned the way of the development of trade payment. (Hou 2010, 8)

2.3 Development of bill credit in trade payment

Back in 2000 B.C., ancient Greece and Rome has already invented the prototype of document, yinhao. Dutch people could use this document to take purchase in Rome and vice versa. At 12 century B.C., Mediterranean countries started releasing draft to facilitate the cross border trade. For example, Roman wants to purchase silk from Dutch people. They need to use the gold to buy a draft and then use this draft the pay the transaction in Holland. As time flired, terms of payment has been evolved into a few modernized standard ones, such as open account, bill of exchange and letter of credit which will be specified later in this part. (Hou 2010, 12).

2.3.1 Banking network of trade payment

What should be established to support the development of bill credit? This is a prominent and critical issue need to be dedicated in. As I mentioned above, Roman want to buy silk in Holland by just using a piece of paper-bill. Who issued this bill? Who will recognize this bill? Bunch of questions is surging in while conducting this transaction. At this time, banking network is a new term that is necessary to be introduced. Actually, Mediterranean countries already established the banking network within their own area. This is also the prerequisite of trade payment. Whether in international trade payment or domestic trade payment bank is an indispensable element during the whole process. In terms of domestic payment, the payment and collection of a certain transaction that is settled based on bank credit can only be conducted through banks. Therefore creating a robust and extensive banking network is the prerequisite of trade payment. (Chen & Li 2010, 7)

As a result, the term “affiliated bank” appears. Affiliated bank generally refers to the connection between the head office and sub-branches of a commercial bank. It does

not only involve the vertical relationship between head office and sub-branches, also the horizontal relationship between sub-branches. Nationwide, types and structures of sub-branches are relatively simple compared to the international one, which has various possibilities. (Chen & Li 2010, 7)

2.4 Different types of payment mode and their features

Payment mode is the main issue we are exploring in this thesis. In this part, I will specifically introduce different types of payment mode and their features. As we probably noticed from the descriptions above, the process of international trade is as much complicated as domestic trade, if not more so. Therefore, I will list the international payment modes below and apply the appropriate ones to China's domestic payment mode which is just one of the main intention of this thesis.

There are numerous types of standard and special terms of payment. Each of them has their own special features to meet need of buyer, seller and the intermediation involved. Generally speaking, the following three basic terms of payment represent the precursor of modern payment system (Hinkelman 2003, 10):

(1) Open account;

Open account, also called open credit, is a terms of payment that delivery of goods or services is conducted with an invoices requesting payment before the payment made. The duration seller offers for buyer to pay is called credit term. (Carr 2010, 463)

(2) Bill of exchange;

It is a non-interest-bearing order issued by a person or business, which directs to the recipients to pay a certain amount of money to a third party. (Carr 2010, 463)

(3) Letter of credit (documentary credits).

It is a letter from bank that guarantees the payment from buyer to seller on time and

with correct amount. Once the buyer is not able to make the payment, bank is responsible to cover the remaining amount of purchase.(Carr 2010, 463)

Specifically, to facilitate our research discussion, mode of payment can also be divided into two types in terms of credit type: commercial credit and bank credit. (Carr 2010, 463)

2.4.1 Payment modes based on commercial credit

Payment mode based on commercial credit is not secured by bank, even though bank is involved in the process. It means that sellers cannot count on bank to collect back their money. It depends on the buyers' credit. (Crouhy, Galai & Mark 2006, 231)
The two most frequently used payment modes by Hopetone based on commercial credit are: open account and commercial draft.

In most of the trade transactions, payment is made based on the terms of "open account". It means seller deliver the goods to buyer without receiving cash. Instead, seller will issue a draft or some other legally binding. Seller is supposed to be paid by buyer according to the terms of the sales contract and seller's later invoice. Consequently, there will be a form of agreed credit provided for the buyer which normally be verified by the invoice and the copies of the shipping and delivery document. (Grath 2012, 35)

Commercial draft is another payment mode that Hopetone has been keep using. It is a draft that issued by bank on behalf of the buyer, facilitates seller collect the money back in a certain terms after the goods or services delivered. Paying by using this mode of payment, seller could ask the money directly from bank after the payment term is due rely on this draft. However, the bank does not guarantee the payment if the buyer, for some reason, does not has sufficient money to pay this transaction. (Lee & Lee 2006, 60)

The two payment modes above based on commercial credit implicates high risks. These payment modes based on commercial credit were used on a lot of transactions before the shift to another one that will be mentioned below. (Interview, 2012)

2.4.2 Payment modes based on bank credit

Above I have given an explicit introduction on the payment mode based on commercial credit that advantages in low cost, but comparatively high risk. Even though cost is a measurement of a good mode of payment, paying on time is the paramount issue enterprise concerns. Assuming that a company has an extensive customer relationships, it would still cause the company to go bust because of the bad debt, which refers to the debt, has been confirmed that could not be paid back from the customers. Therefore payment modes that processed based on bank credit should have been put in use in trade to ensure the basic security of the transaction for seller. (Preve, Love & Allende 2005, 8)

After Hopetone realized the flaws brought down by the payment based on commercial credit, it made a change to a mode of payment based on bank credit, called bank's acceptance bill. This is a payment mode that is very similar to the commercial draft I mentioned above in the 2.4.1. Seller can collect the money based on the draft issued by bank on behalf of buyer. However, one key difference is that bank would guarantee the payment to seller, once the draft is issued. Therefore, we could say that, by using this mode of payment, the risk for seller is, in a way, eliminated. But another problem appears when bank ask a warranty from buyer to guarantee the payment. Usually the warranty is ranged from 15%-30% for companies that have a strong credit. For those who do not have strong credit background, 70%-80% of warranty would be imposed. Thus, buyer would have less intention on doing this transaction because of this "uneven" term. Therefore, to a certain extent, the customer base is narrowed down. (Wang 2005, 89)

Besides, there are three more payment modes based on bank credit: letter of credit (L/C), letters of guarantee (L/G) and international factoring. It could be inferred from the term bank credit that the common essence of these three methods is better risk control. (Capela 2008, 176)

Letter of credit, widely used in the payment of international business, is a document issued by the buyer's bank that ensure the seller will getting paid according to the provisions of the contract. Buyer, in this case, is responsible for applying the letter of credit from his bank, and if the buyer happened that failing to pay the seller buyer's bank would have to take this liability. (Capela 2008, 176)

As some other payment documents, letter of credit could also be added different provisions to form different types of that, such as revocable and irrevocable, confirmed and unconfirmed, straight and non-straight and so forth. This trait of wide variety, however, does not have an intrinsic influence on the investigation of our issue. Therefore, specifications will be left out in this case. (Capela 2008, 176)

Letter of guarantee and factoring, in a way, operate on the same principle. They will be detailed later in the application part.

3. ANALYSIS OF HOPETONE'S PAYMENT PROBLEM

As I stated in part 2, payment mode could be classified into two categories in terms of credit types, commercial credit and bank credit. Apparently, having been explained above, payment modes based on commercial credit, relatively bear higher risk and has much more uncertainty compared to that on bank credit, even though there are also flaws existing on the bank credit based payment mode using by Hopetone. He, in turn, paid a heavy price for his routinism on the payment mode based on commercial credit. (Interview, 2012)

3.1 Company Chu's case

In year 2004, Hopetone was doing business of hard coke with company Chu, another trading enterprise. Ideally, the rough procedure should have been like this: 1. Hopetone confirmed the number of goods, price, product type and so forth with company Chu; 2. Hopetone delivery the goods and sold them on credit with invoice issued; 3. Company Chu payback money in agreed days. (Interview, 2012)

While, it stopped proceeding until step 3. Not very long after Hopetone delivered the goods, they got grievous news that Company Chu was not able to payback the money and the delivered goods had also been held in custody in the warehouse of Company Chu. This news shock the whole company like a bolt from the blue. Hopetone then sent people to company Chu to sort the mess out. After all, the truth was found that while company Chu doing business with Hopetone, they also engaged in a lawsuit with another company. After Hopetone delivered the goods, company Chu was sentenced lose by court and be warned to repay all the debt and responsible for all fares. Hence, all properties, owned by company Chu, were sold for repaying debt, the delivered goods also included. Hopetone appealed again and again at the local court to try to call back the ownership of the goods. Unfortunately, he eventually did get back a single penny, which means that they lost 2 million euros. (Interview, 2012)

Obviously, this is a flop caused by using inappropriate payment mode. However, some would say that this accident, to a large extent, resulted from omitting its partner's situation. They supposed that things would come to another situation if Hopetone did a research on its potential business partner before have the deal done. It is true that, in this case, Hopetone may well circumvent this flop if the research did ahead. But, quite often, it is inevitable to come across this trouble if wrong payment mode used, like the following story telling.

3.2 Company Tian's case

February 2002, Hopetone reached a consensus with company Tian, that it would supply coal to company Tian constantly on credit. The agreement shows that company Tian would pay Hopetone for the last parcel of goods ever after the new parcel is loaded. The meaning of doing like this is that company Tian should use the money attained from sales of coal to power plant to pay Hopetone. In a simple word, company Tian play the role as middleman and never use its own money in this trade. Nevertheless, it had nothing to do with Hopetone as long the money could be collected in time. However, the trade was been maintained for a couple of months until the end of 2002. News that the boss of company Tian was been caught by police and was sued of committing financial fraud was informed to Hopetone. It implies that Hopetone could not get its money back until the boss of company Tian be freed. And even if the tacit fact that the goods was been used by the power plant is clearly known by Hopetown, it still could not ask the money back from the power plant because it is not the direct debtor of Hopetone. Situation got even worse when Hopetone heard that the 70 some years old boss suddenly died in prison. The only hope to ask back the money was completely vanished. This case cost Hopetone 1.1 million euros. (Interview, 2012)

Both of the incidents above have a common trait that it is the partner company's

abnormal operation, which finally results in the failure of the company, indirectly blockades Hopetone from collecting money back. This type of accident is just one trait reflects business partner's instability, whereas some of them are able to be awarded and finally avoided some are not. The other one, resulted from the policy changes of national macro-control is seemingly impossible to foresee and circumvent.

3.3 Company Shu's case

Hopetone had been keeping a long time corporation with company Shu, a small-sized steel and iron enterprise until July 2008. Iron ore is provided, on credit, to company Shu by Hopetone. Unfortunately, there was a policy issued by State Department by the end of June 2008: Forbidden the operation of private and small-scaled steel works and coal mine because the high-energy consumption and severe environment contamination. Even though this is not exactly what the provision stated, it roughly covers what the State Department meant. Apparently, company Shu is a typical one in the range of the referred enterprise. Therefore company Shu was forced to stop all the industrial activity and shut down. No doubt, it is such a devastating strike for company Shu. However, much larger influences were been brought to other companies and organizations. Until the time company Shu declared shutting down their warehouse, it still owe two other companies 7.7 million euro and had a loan about 22 million euro not paid. Of course, Hopetone is one of his creditors as well and the amount is about 2 million euro. Hopetone finally did not get anything back as well in this case because he was neither the first nor the biggest creditor of company Shu. (Interview, 2012)

The unexpected results brought on by these three cases are all caused by the mistake or improper operation of the client company, no matter it is malicious or not.

Even though bank acceptance bill, the bank credit based payment mode, is adopted nowadays by Hopetone, the disadvantage, narrowing down customer base which can

be regarded as another very important measurement of payment mode, also exists in it. (Interview, 2012)

All in all, to refrain from being trapped in this sort of situation, Hopetone must hit the road by tracking to the root cause, mode of payment, of this series of flops.

4. APPLICATION OF NEW PAYMENT MODE

Problems arise when it comes to payment, whether in international or domestic trade, because it is impossible for a simultaneous exchange of goods for money. Even though there is a way to achieve it ideally, very often Hopetone, this sort of trading enterprise, has to offer credit for its suppliers because of the macro environment. Therefore a reasonable and proper way that can guarantee Hopetone would be paid in time should be sorted out as soon as possible.

4.1 Factors effect payment mode

Payment can be affected in a couple of ways. Mode of payment decides the degree of risk. The method to be used is depend on the factors like the bargaining strength of the parties to the sale contract, the economic climate in that country and the countries related, the degree of trust and confidence of each party in the other, and the political stability of the countries that affecting the trade. (Hinkelman 2003, 10)

Above in part 2, I have given a brief introduction of different types of payment modes which basically could be classified into 2 types: business credit and bank credit. The way based on business credit could be temporarily ignored since we have analyzed that it is such a relatively high-risk payment way. Hence payment mode based on bank credit is what we intensively focus on here.

4.2 Roles of payment mode

Before applying the payment mode on Hopetone, to know how it would benefit Hopetone is what, I supposed, most of people want to know. After considering and summarizing all the factors that payment could affect, four aspects of functions are been refined out.

4.2.1 Risk management

It is undoubtedly that the primary role of a good payment mode is to help the company minimize, or diminish risks. First thing first, we must clarify where the risk comes from. In terms of the mode of payment, the risk comes from the credit terms Hopetone offer to their clients. The longer the credit terms Hopetone offer, the larger the possibility of uncertainty exists. However, there are two other very important functions cannot be ignored as well.

4.2.2 Financing

As we all know that, financing is a very prominent process for trading enterprise. Company could go bankrupt overnight if the capital chain broke down. Like the real estate industry, trading enterprises always use the money loan from bank to conduct the purchase and pay back the loan by using the money attained from the client. However, as we have analyzed above that trading enterprises, like Hopetone always need to provide credit payback term for their clients to retain them. Otherwise, the company is bound to be forced out of the competition, unless the product that the company possessing is special or unique. Therefore, besides load and some other ways of getting money, financing through proper payment mode, which refers to minimizing collection time, is another effective way of raising money.

4.2.3 Extending customer base

Credit payback term is probably a request from all the clients for a trading enterprise.

Company Da Yu, we mentioned in the introduction, went busted due to the staleness on the payment mode. As the effect of globalization, more and more

Therefore, a proper mode of payment, which not only provide the credit term clients satisfied, but also minimizing the collection time one of most crucial step over the trading process for a trading enterprise.

4.2.4 Cost

Cost of the payment mode is still an important factor that needs to be concerned by enterprise. For example, the commission fee charged by bank on the factoring is from 0.75 to 2%. (Website of foreign trade test, 2012) And according to the information from manager, the profit margin of certain transactions in trading enterprises is about 4% or 5%. (Interview, 2012) Obviously, enterprise would not spend so much money on a term of payment in a transaction with such a low profit margin.

4.3 Possible efficient mode of payment

Again in part 2, I have described some types of payment mode based on bank credit, which are relatively safer, such as letter of credit, factoring, letter of guarantee and so forth. By considering the trade type and the current situation of Hopetone, letter of credit, factoring and letter of guarantee are the three most effective way of payment for this company among the bunch of existing payment modes. (Carr 2010, 438)

4.4 Application of new existing payment modes on Hopetone

Risk avoidance, financing and customer base are the three main issues that I considered when I tried to come up with some effective payment mode for Hopetone. Letter of credit, letter of guarantee and factoring, in a way, are the three options that come most close to ideal. Moreover, each of them also has their own specialties in terms of different trade type, bargaining power, cost reduction and so forth.

4.4.1 Domestic letter of credit

Letter of credit, the most frequently used of payment, accounts for more than 50% of international trade payment around the world and 70 % in the enterprise of China (Zhou 2010, 123). It is also a very universal payment tool on China's domestic trade. China's letter of credit has its own specialty such as irrevocable and non-negotiable. Other than just a guarantee for the payment in international letter of credit, China's domestic letter of credit clarified that the credit issuer is the first payer. It means that the debt relation between Hopetone and the buyer is shifted to the credit issuer. (Website of bank of China, 2012)

The advantages for Hopetone of the domestic letter of credit are as follows:

For buyers:

- a) Safe payment
- b) Funding channels added
- c) Supervising seller do the obligation
- d) Avoiding the capital long term occupied

For sellers:

- a) Control of the right of the goods
- b) Financing
- c) Accounts receivables deduction
- d) Levitating payment risk

(Website of Bank of China, 2012)

The whole operating process is as Figure 2 below demonstrates. There are roughly 9 steps in a trade payment that has four parties involved, which are buyer, buyer's bank, seller and seller's bank.

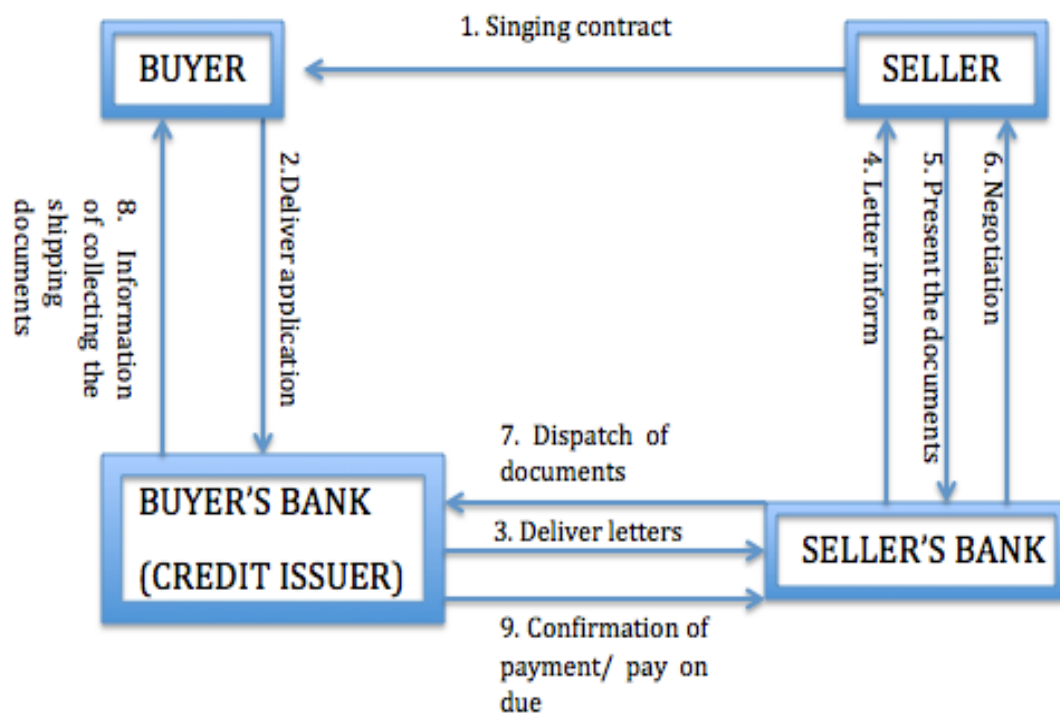


Figure 2. Process of Chinese letters of credit

Furthermore, the fee charged out of the whole process from the credit issuer is about 0.15% of the total amount, which is relatively low number in these three ways. (Website of method of Chinese letters of credit, 2012)

4.4.2 Letter of guarantee

Letter of guarantee, another type of payment mode based on bank credit, is issued by a bank on behalf of the customer to meet the obligation to its suppliers in the event of default. Appendix 1 is a sample of letter of guarantee. However, differentiates to that in letter of credit, buyer's bank in letter of guarantee is not the first obligator. Indirectly it implies that aiming at financing through this way is impossible. Bank can only give a guarantee for the payment and it will be paid by bank only in the situation that buyer is on default. Besides the service fee charged by bank is about 0.25-0.5 of the total amount of the trade. (Website of Minsheng Bank, 2012)

4.4.3 Factoring

China's domestic factoring business is derived from international factoring. Banks in China took examples by international factoring and added some special provisions that facilitate Chinese environment to provide service for trading enterprises. Like the other two payment modes, factoring is insurance from bank for seller. Factors, usually the buyer's bank, guarantee the price of goods for seller. The factor is totally responsible for the cash flow from buyer to seller. In other words, factor or buyer's bank is the direct payer to seller in this trade. Figure 3 embraces nearly every phases of Chinese factoring for domestic trade. (Website of Bank of Standard and Chartered, 2012)

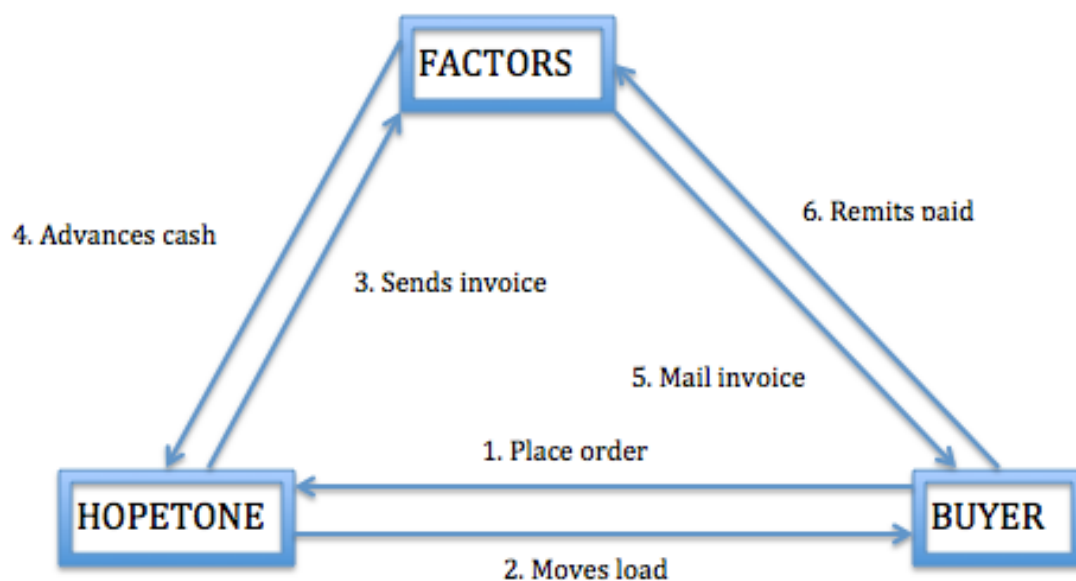


Figure 3. Process of Chinese factoring

Moreover, another very powerful tool that factoring possesses is funding. Usually 75-80% of the total amount of the trade could be forwarded to seller at the time the contract is signed. This is what cannot be achieved through the other two ways. (Website of Bank of Standard and Chartered, 2012)

However, even though it seems that no pitfall could be found in this mode of payment mode, there is relatively startling high fare charged by bank in this program which about 1-1.5%. (Website of Bank of Standard and Chartered, 2012)

4.5 SWOT analysis on Hopetone in terms of payment mode

The SWOT analysis I did below, figure 4, reflects the current situation of Hopetone in terms of strength, weakness, opportunity and threat. Apparently, the points content are listed in the frame for each section. Nevertheless, rather than bluntly popping those points above, a couple of background information about the enterprise system in China will be presented.

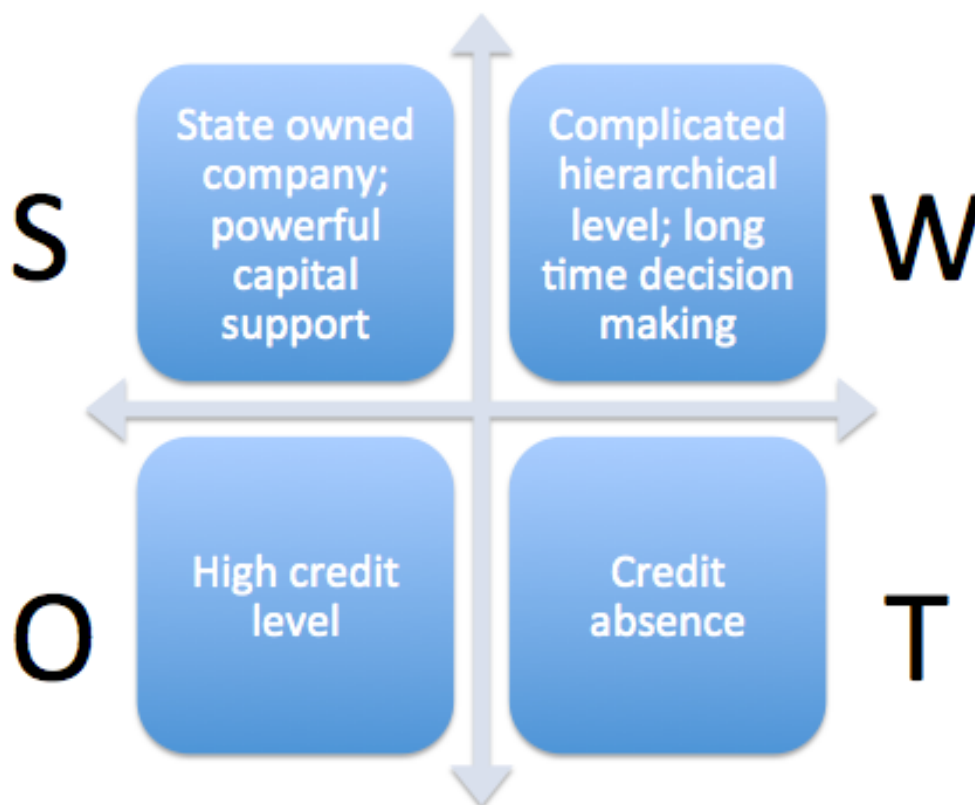


Figure 4. SWOT analysis of Hopetone in terms of payment mode

4.5.1 Current credit situation of China

This section is added to explain the impact of credit crunch on China. Supposedly, it is universally accepted that if companies were running within an ideal credit circumstance and no absence of credit existing, there would be no company default on the payment except one course of action, cheating. (The wall street journal, 2012)

However, what China, or probably majorities in the world, is experiencing is a severe credit crunch. “Retreat of China’s credit tide leaves a stench” this is the caption of an article by Paul J. Davies posted on Financial Times website at September 18, 2012. Credit risk is been increasingly aroused resulted from the slow cash generation and rising financial leverage. (Website of financial times, 2012) It is a bare revelation of the unprecedented absence of credit in business market. The phenomenon, getting a loan from bank is much harder or even impossible than before hundreds of thousands privately owned enterprises feel, is triggered directly by the grim economic situation at the moment. A head of privately owned company went busted resulted from failing to get a loan. (Website of the telegraph, 2012) However, State-owned enterprises are not influenced too much on company financing. The point here is not emphasizing how bad the economic situation is currently in China; instead, this is an opportunity for Hopetone.

4.5.2 State-owned enterprise vs. privately owned enterprise

Before continue the topic above, a very important and apparent thing that we must to clarify is that Hopetone is a state-owned enterprise. And due to the specialty of the industry they stepped in and their dominant status within the sphere, most of clients or business partners of Hopetone are small and mid-sized privately owned companies. Therefore, before we coming up with the new ideas of payment, the brief background knowledge, showing the key difference in terms of China’s policy between state-owned enterprise and privately owned enterprise is indispensable for the

audience.

Continuing the credit crunch problem in China, the current situation is that small and mid-sized privately owned are very hard to get a loan from official banks, except some high-rate finance company. This is one aspect of advantage that state-owned company gained that privately owned did not. (Website of Bank of China, 2012)

Furthermore, another advantage state-owned company possess is that they could get the loan with a much lower interest than that gained by privately owned company. Assuming tracing back to three years ago, credit crunch has not swept over on China, the average standard interest rate of state-controlled banks is about 5.5% and 7% for state-owned and privately owned enterprise respectively. It seems 1.5% difference is not such a big gap. However, people had experience on it before may know that there is a fluctuation on interest rate, resulted from the variation of market condition, controlled by banks. Usually, for adjusted interest rate will be around 8% for state-owned company, whereas that for privately owned company would usually fetch up to 12.5%. (Hopetone interview, 2012) 4.5% is materially a big gap and could be interpreted as a heap of money. Hence, the situation three years ago already advantaged Hopetone, let alone the situation at the moment. (Website of Bank of China, 2012)

In a nutshell, we could know from the SWOT that Hopetone is a branch of a state owned company and has a very strong credit level. The other very important factor that favors Hopetone is that it is more and more difficult for small and mid-sized trading enterprise loan from bank because of the credit crunch in China. Even though they could pass the loan approval criteria, the interest will be extremely high. Noticeably, the state-owned company has a very remarkable advantage that its loan interest rate is much lower than the privately owned company. (Website of Bank of China, 2012)

On the downside, we have to heed about the threat of environment immersed with the increasingly aggravated absence of credit. On the other hand, inflexibility and the strict hierarchical level confine Hopetone to reform on the payment mode as well. As we all know, Hopetone belongs to a big group called Tewoo group itself also owns a couple of sub-companies. Therefore, whenever they want to change something related to the policy and operational mode, new idea must always be examined from level to level through which may cause large uncertainty. This is a key problem Hopetone need to negotiate.

4.6 New Innovative methods

The three modes of payment above that I have recommended are relatively the ideal ones. Each of them has its merit and pitfall as well. The table below, table 3, demonstrates the specific comparisons on several items among these three payment modes. Obviously, as we have discussed above, the mode of factoring is the most suitable way for Hopetone if the fare is not took into account. However, the problem of cost definitely cannot be ignored. Control of expenditures is a very prominent item that concerned by trading enterprises because of the low profit margin in this industry. For example, the annual profit margin is about 5. If Hopetone adopts factoring, at least 2 percent of the total revenue would be cut by bank for the service. In this case, it comes better to give up this trade than do it because even if you accomplished it successfully, the profit you could gain would be remarkably low.

Table 3. Comparison among L/C, L/G, and Factoring

Content	Duration	Procedure	Fee	Frequency
L/C	Long	Complicated	Low	High
L/G	Long	Simple	Moderate	Moderate
Factoring	Short	Complicated	High	Low

As we mentioned above in 4.2, the benchmark to measure whether it is a good mode

of payment are as the following:

- a) Risk avoiding
- b) Financing
- c) Customer base
- d) Cost

Factoring is a way that materially matches with these three measures regardless the high fare. Is there a way that could help Hopetone gain more benefit?

By optimizing the payment mode, I took into account many related factors include the SWOT analysis and came up with a way that, not only in my mind but in the manager's mind a reasonable and creative way of payment. It could be called "risk financing".

4.6.1 Advantages of the new mode

The process of the new mode will be working like figure 5 below illustrates. Hopetone will guarantee for its business partner to loan from bank. However the loan can be only used to pay Hopetone for the goods and the loan amount is exactly the same to the trade amount. By doing this way, Hopetone not only could collect the money back with no delay, and also does not need to pay any fares except the regular payment service.

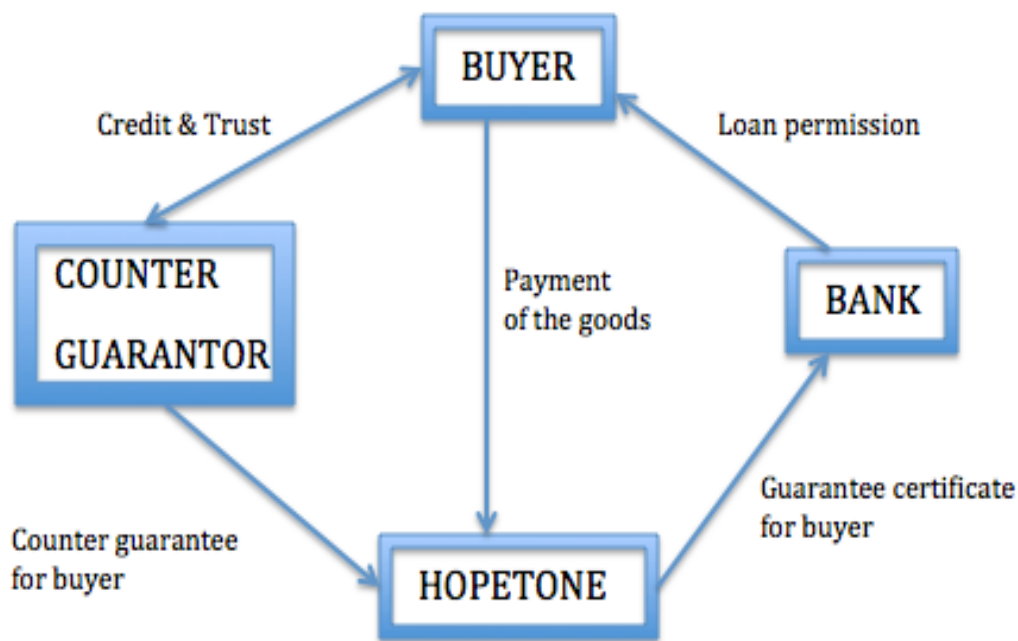


Figure 5. Process of new payment mode, “risk financing”

4.6.2 Potential risk and its solution

Nevertheless, doubt has been raised that what if the partner company defaults on his loan. The risk would be the same or even larger. To cope with this dilemma, I contacted with the manager and had an in-depth discussion on this issue. We suppose if a company would like to do in this way, Hopetone needs to ask the partner company to find another company, the counter guarantor shown in Figure 5, which supposed not strong enough for guaranteeing a loan from bank, to counter-guarantee for him. As a result, even though the partner company defaults on the loan, the risk will be alleviated in a large extent.

There are a few possibilities for the relationship between the counter-guarantor and the buyer: 1) the bosses of the two company has a kinship; 2) the two companies are long-term business partners; 3) The counter-guarantor is also involved in the transaction between the buyer and Hopetone. If the buyer failed, so did the

counter-guarantor.

4.6.3 Comparison between new mode and old mode

Table 4. Contrast of “open account ” method and “risk financing” method

Content	Risk	Financing	Customer base
Open account	High (totally passive in the payment process)	None (credit terms offered to clients, nearly no function of financing)	Remain constant
Risk financing	Low (no risk at the payment process, might happen when clients default on the loan)	High (payment for goods will be collected once the loan is permitted, very conducive for re-investment and debt payment)	Expansion (More and more enterprises will find out the benefits of possibility for loan and low interest rate)

As we know from the description in part 2 and 3 that very often Hopetone use the way of open account- giving clients credit to accomplish the payment process. Down here, an intuitional contrast is presented in the table below, table 4, in terms of the three benchmarks of assessing payment, risk avoidance, financing, and customer base, for better acknowledging the audience with the advantage of the new mode.

5. CONCLUSION

Payment mode is really an actual and tricky problem that perplexes Hopetone. Improper and risky mode of payment has incurred a heap of problem and loss for Hopetone. My three recommendations, in a certain extent, matches the three benchmarks, risk, customer base and financing respectively. Letter of credit, letter of guarantee and factoring are all originally used in international trade. Throughout the years, China has been trying them out in the domestic trade. However, they are still young. Lots of work still needs to be done for raising them up. Domestic letter of credit is introduced in 1997 to China. In 10 years time, we could say that its development remains stand still with the fact that only a few banks conducted this service with a very low amount of transaction. The situation turned up to recover and blossom as of 2010. (Website of China's foreign trade 2012) The other two modes, factoring and letter of guarantee, presented an even lower pace of development. Fundamentally, government policy plays a subtle in framing the rules of these payment modes. Arbitrarily, policies that resulted from the special environment of China confine the performance that we have conceived. Especially on factoring, the limit of financing ability is much less than that of international factoring.

The mode of payment, risk financing, that I invented, in a way, best suit for the current situation of Hopetone. Even though there is no the best, only the better on mode of payment, risk financing, in my opinion, follows that trend of development of China's payment mode. And I believe the mode of payment would become more variable and beneficial for enterprises, as the fulfillment of related policies.

Hopetone did a considerable effort in helping their mother company ranking into top 500. I believe updates on the mode of payment of Hopetone would lead them develop in a more efficient way and achieve more remarkable outcomes.

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APPENDIX

APPENDIX 1

Letter of credit

中国銀行 BANK OF CHINA		TELEX: ITT 423635, WU 661723 TRT 177383 S.W.I.F.T.: BKCH US 33																		
410 MADISON AVENUE NEW YORK, NY 10017 TELEPHONE: (212) 935-3101	NEW YORK BRANCH																			
LETTER OF CREDIT ADVICE																				
OUR ADVICE NUMBER: LCX688NY1765		DATE: MAY 17, 1988																		
BENEFICIARY: [900900590-PAS]	ISSUING BANK:	[900900492-IBC]																		
VULCAN IRON WORKS INC 2909 RIVERSIDE DRIVE CHATTANOOGA TN 37406	BANK OF CHINA - TANGGU BRANCH XINGGANG 2 LU																			
ADVISED THROUGH:	APPLICANT:																			
	BOHAI OIL CORP. OF CHINA NATIONAL OFFSHORE OIL CORP., TANGGU, CHINA																			
	FIRST ADVISING BANK:																			
Reference:																				
LETTER OF CREDIT 21088047 CREDIT AMOUNT USD167,303.37		DATED MAY 6, 1988																		
<p>At the request of the above mentioned issuing bank, we forward to your their letter of credit issued in your favor.</p> <p>Unless otherwise specified, documents presented to us in order, ordinarily, will be despatched to the issuing bank for payment after our negotiation. Payment will be effected upon our receipt of funds from the issuing bank, or the reimbursing bank.</p> <p>It is requested that the ORIGINAL Letter of Credit and it's amendment(s) to be presented along with your documents at time of negotiation, together with one additional copy each, of commercial invoice and B/L or AWB.</p> <p>This is solely an advice of Letter of Credit and conveys no engagement on the part of Bank of China, New York.</p>																				
<table border="0"><tr><td>OUR BANK CHARGES FOR YOUR ACCOUNT AS FOLLOWS=====</td><td>[ADV COMM]</td><td>[\$30.00]</td></tr><tr><td></td><td>[CFM COMM]</td><td>[\$]</td></tr><tr><td>[] WE HAVE DEBITED YOUR ACCOUNT WITH US</td><td>[POSTAGE]</td><td>[\$]</td></tr><tr><td>[x] PLEASE PAY BY CHECK, QUOTING OUR LCX688NY1765</td><td>[TELEX]</td><td>[\$]</td></tr><tr><td></td><td>[FAX]</td><td>[\$]</td></tr><tr><td>=====</td><td>[TOTAL CHGS:</td><td>\$30.00]</td></tr></table>			OUR BANK CHARGES FOR YOUR ACCOUNT AS FOLLOWS=====	[ADV COMM]	[\$30.00]		[CFM COMM]	[\$]	[] WE HAVE DEBITED YOUR ACCOUNT WITH US	[POSTAGE]	[\$]	[x] PLEASE PAY BY CHECK, QUOTING OUR LCX688NY1765	[TELEX]	[\$]		[FAX]	[\$]	=====	[TOTAL CHGS:	\$30.00]
OUR BANK CHARGES FOR YOUR ACCOUNT AS FOLLOWS=====	[ADV COMM]	[\$30.00]																		
	[CFM COMM]	[\$]																		
[] WE HAVE DEBITED YOUR ACCOUNT WITH US	[POSTAGE]	[\$]																		
[x] PLEASE PAY BY CHECK, QUOTING OUR LCX688NY1765	[TELEX]	[\$]																		
	[FAX]	[\$]																		
=====	[TOTAL CHGS:	\$30.00]																		
PLEASE ACKNOWLEDGE RECEIPT	Very truly yours, Bank of China, New York																			
(Please sign & return pink copy)	(authorized signature)																			
ORIGINAL																				

Letter of guarantee

Mr. Yoshikazu Hatayama
C.E.O. STYLEX Group
8-27, Konan 1, Minatoku, Tokyo
Japan, 108-0075

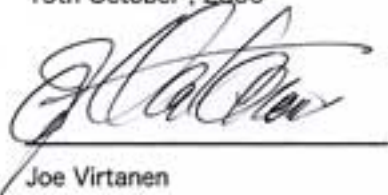
Letter of Guarantee

Australian Paulownia Trees and Plantations hereby guarantees prices for paulownia timber stated below shall be achievable under optimum growing conditions in accordance with "Memorandum of Understanding" concluded on 6th day of March 2006 and "CULTIVATION, HARVEST AND TIMBER SALE AGREEMENT" concluded on 11th day of April 2006.

500 USD per cubic meter after 6 years of planting.

We shall compensate shortfall values, if incurred, between the guaranteed paulownia price (500 USD) and the actual market price per cubic meter.

15th October , 2006

A handwritten signature in black ink, appearing to read 'Joe Virtanen', is written over a horizontal line.

Joe Virtanen
President
Australian Paulownia Trees and Plantations

Factoring

FACTORING AGREEMENT

Featured CIT Group Inc. Factoring Agreements

January 15, 2004
Cynthia Steffe Acquisition, LLC
c/o Bernard Chaus, Inc.
530 Seventh Avenue
New York, New York 10018

FACTORING AGREEMENT

Ladies and Gentlemen:

We are pleased to confirm the terms and conditions that will govern our funds in use accounting, non-borrowing, notification factoring arrangement with you (the "Agreement").

1. SALE OF ACCOUNTS

You sell and assign to us, and we purchase as absolute owner, all accounts arising from your sales of inventory or rendition of services, including those under any trade names, through any divisions and through any selling agent (collectively, the "Accounts" and individually, an "Account").

2. CREDIT APPROVAL

2.1. Requests for credit approval for all of your orders must be submitted to our Credit Department via computer by either: (a) On-Line Terminal Access, or (b) Electronic Batch Transmission. If you are unable to submit orders via computer, then orders can be

More at agreements.org

Interview script

Ask: Hello, Mr. Liu, as we all know that the textile industry is in downturn in recent years. There is nearly no profit for cotton processing due to the decrease of the order received by the textile processing company. Moreover, the middleman, lint Cotton Company, is also in a dilemma. It would be a huge loss if reserving stock on purpose. On the other hand, stock would be lack for supply when weaving factory need raw materials. However, this doesn't happen in your company, is there any tricks?

Answer: Can't call it tricks. It's just because I intended to play steadily and conservatively. Specifically, two things I insist on constantly. One is never reserving stock and bet on markets blindly. Secondly, refraining from being at risk on mode of payment.

Ask: Could you please explain what is not bet on market?

Answer: Some companies like to bet on market. They will fund savagely for purchasing stock once they speculate the price would rise. They expect to make a bundle after the price went up. If the analysis is accurate and speculation came true, they would indeed make a big fortune. However, there's nearly no such opportunities generated from lint cotton market in recent years. Personally, I don't appreciate of doing in this way. Even though you won a bet once, you cannot get luck at every single time. Once you made a mistake, it may well be the end of your company. Therefore I insist on purchase after order settled. I never reserve stock if no order comes in. In other words, I purchase stock tactically after there is a steady relationship built up between my company and the spin enterprise. Even though the profit is relatively lower, I still keep up running in this way.

Ask: So what you do on avoiding credit risk?

Answer: My clients can be divided into two types. One is cotton-processing enterprise; the other one is spin cotton enterprise. The way the contract signed with them are different, but in nature they are all based on avoiding payment risk.

Ask: Could you please introduce the cotton-processing enterprise a bit?

Answer: There is a seasonal fluctuation in the production of cotton-processing enterprise. Majority of the production is launched between September and December. The difficulty at this time for our clients is the shortage of fund. Hence, to cope with such situation, we sign a redemption contract with them. It means we buy their lint cotton at a 90% discount price, and the seller has the redemption right in a certain period (such as 3 month). In that period, we can't sell the stock without seller's permission. If our clients fail to meet the time limit, we will own the stock with no extra condition.

Ask: How about with spin cotton enterprise?

Answer: After they place the order, we'll go to seek the stock that matches their requirements. When a consensus is been reached, we'll sign a contract. Spin cotton company must pay us the warranty which worth 10% of the total contract value. We will pay to get the ownership of the stock from the third party. In a certain period (such as 3 months), we must sell them to the referred spin cotton company at the price on the contract. If the company do not fulfill in the fixed period, we can sell the stock to anybody without paying back the warranty.

Ask: It seems that your way of payment indeed avoids risks substantially. But if the price fluctuation of the stock is over 10%, the risk is still presents.

Answer: Yep, but in this case, credit risk shifts to market risk. According to my experience, it is rare to see an over 10% price fluctuation in three month in lint cotton market. If it really happened, we still need to face it. After all, trade is always at risk.

Ask: Congratulations for your success! I still want to discuss with you about a payment problem: if you your client wanted to buy cotton from you, but he doesn't have sufficient money, at this time, could you guarantee for him loan from bank to pay back your money?

Answer: It's a creative suggestion. Well, it roughly involves three aspects of problems:

First, this client must be hard to loan from bank, otherwise he doesn't have to do so.

Secondly, the interest rate must be reasonable for our clients to payback, otherwise it in vain to do so.

Thirdly, we must shift this risk to others if our client failed to pay back the loan.

If all of these four problems can be sorted out, I think your idea should be very valuable, whether for our company, for our clients, or for bank.